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Message Text

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PAGE 01 BRUSSE 06733 062215Z
ACTION EUR-12

INFO OCT-01 IO-13 ISO-00 AID-05 CEA-01 CIAE-00 COME-00
EB-08 FRB-03 INR-10 NSAE-00 SP-02 STR-07 TRSE-00
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GENEVA ALSO FOR MTN

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TAGS: EEC, EGEN, ETRD
SUBJECT: EC POLICY TOWARDS PUBLICLY-OWNED CORPORATIONS
AND STATE MONOPOLIES

1. ACCORDING TO DG-IV (COMPETITION) OFFICIALS, THE EC COMMISSION HAS PLANS TO BECOME MORE ACTIVE IN ENSURING COMPETITIVE BEHAVIOUR BY PUBLIC CORPORATIONS AND MONOPOLIES.

2. ARTICLE 90 OF THE ROME TREATY GIVES THE COMMISSION THE RIGHT TO ELIMINATE DISTORTIONS OF COMPETITION THAT ARISE DUE TO MEMBER STATE INTERVENTION IN PUBLIC CORPORATIONS AND PUBLIC INTEREST MONOPOLIES, BUT SO FAR IT HAS DONE LITTLE IN THIS AREA, PREFERRING TO AVOID DIRECT CONFRONTATION WITH MEMBER STATES, ESPECIALLY ITALY, FRANCE, AND THE UK. MOREOVER THE COMMISSION HAS ONLY LIMITED RESOURCES TO CHECK THESE PRACTICES TO DETERMINE WHETHER
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PAGE 02 BRUSSE 06733 062215Z

THEY ARE INCOMPATIBLE WITH THE TREATY. OFFICIALS BELIEVE, HOWEVER, THAT THE RECESSION HAS PROVOKED A MULTITUDE OF ABUSES IN THIS AREA AND THERE IS EVIDENCE THAT STATE-OWNED UNDERTAKINGS ARE OPERATING WITH OPENLY ACKNOWLEDGED OR HIDDEN LOSSES THAT ARE MADE UP OUT OF PUBLIC FUNDS. ALTHOUGH SOME OF THESE AIDS MAY BE WARRANTED BY ADDITIONAL COSTS IMPOSED ON THE ENTERPRISE BY THE GOVERNMENTS CON-

Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014

Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014

CERNED, OFFICIALS FEEL THE AIDS SHOULD NEVERTHELESS BE INVESTIGATED AND ACTION SHOULD BE TAKEN NOW TO FULLY INTEGRATE THE PUBLIC AND PRIVATE ECONOMIES IN TERMS OF COMPETITIVE BEHAVIOUR.

3. TO GIVE THE COMMISSION A BETTER BASIS FOR POLICY DECISIONS, A STUDY WAS COMMISSIONED IN 1976 ON THE NATURE, THE RELATIVE SIZE, AND SOURCES AND USES OF FUNDS FOR THESE ENTERPRISES. THE COMMISSION HOPES THAT THE STUDY, WHICH WILL BE READY IN MID-1978, WILL FILL A GAP IN ITS UNDERSTANDING OF THE IMPACT OF THESE FIRMS ON THE MARKET AND THEIR MECHANICS OF FINANCING. IN THE MEANTIME, IT IS INVESTIGATING A NUMBER OF CASES WHICH IT HOPES MAY SERVE AS PRECEDENTS FOR A LEGAL APPROACH TO ARTICLE 90, STANDING BY ITSELF OR IN CONJUNCTION WITH ARTICLES 85 AND 86 (ANTI-TRUST) OF THE ROME TREATY. AMONG THESE ARE THE FRENCH TOBACCO MONOPOLY, SCANDANAVIAN AIR SYSTEM AND A LUXEMBOURG NEWSPAPER COMPANY.

4. THE FOCUS OF THE COMMISSION'S MORE ACTIVE POLICY, HOWEVER, WILL BE A DIRECTIVE NOW BEING PREPARED CONCERNING STATE AIDS TO PUBLIC CORPORATIONS. ALAN CHIPP, COMMISSION OFFICIAL RESPONSIBLE FOR POLICY TOWARDS STATE MONOPOLIES AND PUBLIC CORPORATIONS, TOLD MISSION OFFICER THAT THE DIRECTIVE WILL AIM AT SUBSTANTIALLY INCREASING LIMITED OFFICIAL USE

THE DEGREE OF TRANSPARENCY FOR FINANCIAL RELATIONS BETWEEN GOVERNMENT AND PUBLICLY-OWNED CORPORATIONS OR THOSE OPERATING UNDER SPECIAL OR MONOPOLY RIGHTS. THE DIRECTIVE WOULD REQUIRE DISCLOSURE OF ANY TRANSACTIONS WHICH DIRECTLY OR INDIRECTLY PROVIDE SUCH ENTERPRISES WITH AN INCREASE IN CAPITAL OR WHICH OFFER COMPETITIVE ADVANTAGE WHICH WOULD NOT BE AVAILABLE TO OTHER FIRMS, PUBLIC OR PRIVATE. IT WOULD ALSO OUTLINE ACCEPTABLE STANDARDS FOR GRANTING AIDS FOR EMERGENCY SITUATIONS, CYCLICAL PROBLEMS, AND STRUCTURAL ADAPTION.

5. THIS PROPOSAL IS ONLY IN ITS INITIAL PHASE OF DRAFTING. INTERESTINGLY, THE DG-IV OFFICIALS HAVE HAD NO SUBSTANTIVE EXCHANGE OF VIEWS ON THIS ISSUE WITH DG-I (EXTERNAL AFFAIRS) OFFICIALS DEALING WITH A SUBSIDIES CODE IN THE MTN. CHIPP WAS HOPEFUL BUT NOT REALLY OPTIMISTIC THAT THE COUNCIL MIGHT APPROVE THE DIRECTIVE BY THE END OF THE YEAR. HE SAID HE COULD COUNT ON STRONG SUPPORT FROM THE FRG AND THE DANES BUT FEARED AN UNHOLY ALLIANCE OF ITALY, FRANCE AND THE UK COULD POSE SERIOUS PROBLEMS.

6. THE DIRECTOR GENERAL OF THE BRUSSELS-BASED EUROPEAN

Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014

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COUNCIL OF PUBLIC ENTERPRISES (CEEP) TOLD MISSION OFFICER THAT, IN AS FAR AS HE UNDERSTOOD THEM, COMMISSION INITIATIVES WERE POORLY CONCEIVED AND THAT THEY APPEARED TO BE "BREAKING DOWN UNLOCKED DOORS". HE SAID THAT THE COMMISSION WOULD BETTER SPEND ITS EFFORTS CRACKING DOWN ON PUBLIC AIDS TO PRIVATE FIRMS. HE MAINTAINED THAT CEEP WAS IN FAVOR OF GREATER TRANSPARENCY BECAUSE IT WOULD SHOW THAT GOVERNMENTS GENERALLY CONTRIBUTED LESS THAN THEY GOT FROM PUBLIC CORPORATIONS. MORRIS

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20 Mar 2014
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